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CURRENT DISPOSAL PROGRAMS

Before commenting on all seven of the foregoing concerns and considierations it should be mentioned this report is written with the awareness that there are in being a number of disposal programs for CCC surplus dairy inventory. These include: P L 480; foreign sales such as the recent one to Poland for zlotys; the National School Lunch Programs; distribution to other eligible domestic outlets; government-to-government sales such as the one to Mexico; and sales to off-conditioned or overage product to the commercial trade for specific uses. It is assumed these will continue with an exception of government-to-government sales for cash.

PROGRAM PREREQUISITES

Also before commenting on each of the above concerns and considerations it should be pointed out - in advance - there are two major policy decisions that would need to be accepted if the commercial export of U. S. dairy products is to become a useful, ongoing, practical program. These are:

1. Without a competitive price any export program aimed at developing commercial markets for U. S. dairy products would be a waste of time. It is absolutely essential that dairy products be made commercially competitive for a fairly long period of time, thinking in terms of years. The assurance that the U. S. would be competitive would be necessary to keep the free U.S. trade in the deal. While competitiveness over the term would need to be assured, nonetheless, the clear, final objective of the program to be realized as soon as possible is: To get the U. S. government out of the dairy business and the U. S. dairy industry commercially viable on its own. The goal would be, relative to exports for the U. S. dairy industry, to measure up to wheat, to soybeans, to feed grains and so on. (For years there was a wheat subsidy group in U.S.D.A. which set price-assistance levels for making U. S. wheat competitive in world markets. As demand for U. S. wheat grew the subsidy was eventually lowered and then later cut off completely. By now the wheat "subsidy" program has paid for itself many times over. The U. S. government is out of the wheat subsidy business. And there is a fine commercial export market - worldside - for U. S. wheat.

2. Fair, honest competitive pricing combined with responsible selling which does not unfairly pre-empt, dump or otherwise corrupt the markets of others; the willingness to consult - even continuously - with our competitors and to adjust all real

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PA/PI CONSIDERATIONS

incidences of commercial inequity; would need to be sufficient rationale for our State Department, the President's Special Trade Representative, and other representatives to defend the interests of the U. S. and this program in terms of international relations and trade negotiations. As outlined later this program would be strictly in accordance with GATT principles and well in line with worldwide commercial practice in foreign dairy products trade.

Without full acceptance of these two bellwether policy positions there would be no need to consider developing a foreign market for U. S. dairy produts. The program would fail in the absence of State Department and Special Trade Representative (STR) affirmative support.

It should be pointed out, however, that THE ALTERNATIVE TO DEVELOPING THE COMMERCIAL EXPORT MARKET RECOMMENDED HEREIN WOULD BE TO LEAVE THINGS AS THEY ARE: THAT IS IT WOULD STILL BE THE GOVERNMENT AND GOVERNMENT PROGRAMS THAT WOULD BE EXPECTED TO CARRY THE DAIRY INDUSTRY, I.E. ADJUSTING SUPPORT LEVELS DOWN ONE YEAR, UP THE NEXT, ETC., TRYING TO PUSH MORE DAIRY PRODUCTS THROUGH P L 480; TRYING TO GET MORE AID RESOURCES INTO DAIRY DONATIONS; AND SO ON. IN OTHER WORDS, MORE OF THE SAME!

In contrast the program recommended herein provides a new dimension with the potential of using the market to solve the dairy surplus problem. It does, indeed, represent a fundamental change in dairy export policy; that is, a shift toward making the U. S. dairy industry totally a commercial industry.

INTERNATIONAL RELATIONS

Historically the Department of State has had to deal with complaints and concerns of dairy exporting countries whenever the U. S. has moved dairy products into foreign channels whether concessionally or commercially. For many years these complaints were virtually ongoing with respect to P L 480 sales and donations. More recently the government-to-government commercial sales of dairy products to Mexico has drawn the same kind of strong opposition. Today, however, the policy of the United States Government would seem to favor giving higher priority to commercial operations, that is, to help industries with a high proportion of government dependency move away from such dependency. No doubt State and other U. S. Government agencies would, were this program implemented, need to deal with very severe opposition from many of our foreign friends. But, through consultation and through scrupulous adherence to the principle of the GATT, and as well as the policies later set forth which go beyond GATT in the need to be fair and responsible relative to the rights of others, the propriety of the program could be defended.

U. S. dairy exports for quite a time would be less than the

volume of our imports. Not bad for a nation whose per capita GNP is now number six in the world! It does not seem fair that American dairy farmers should be isolated from the growing international demand for dairy products, while traditional suppliers increasingly are unable to fill such demand. It would seem there is strong rationale for professional experts in the Department of State to use in assuring that U. S. relations with our friendly dairy exporting countries would suffer no real damage should this program be implemented. Certainly this program would shine brightly in comparison to that of the EC. On the other hand New Zealand complaints would need priority consideration. The suggestion here is that the best interests of the U. S. are involved and since we will be fair and well principled we should not become soft and cowardly under the sound and fury of complaining countries. If indeed, and examination of our operations shows them to be right, or partly right, the U. S. should make the necessary program adjustments.

TRADE NEGOTIATIONS

In the past U. S. international trade negotiators have had to contend with the hard bargaining of dairy exporters who have sought, and to some extent received, access to the U. S. market. The growth over the years in dairy imports into the U. S. has been considerably higher than the negative growth of U. S. commercial dairy exports. In the recent Tokyo Round of GATT negotiations the U. S. agreed to open up the U. S. market for imports of subsidized foreign cheese. To some extent such imports displace the commerical domestic market for domestic cheese, diverting same to the CCC under the support program paid for by U. S. taxpayers.

In defending a trade policy of the U. S. for commercial exporting of U. S. dairy products it would seem the STR could use much of the same rationale set forth in the section on International Relations above. Also STR could stress the new policies of this administration which are giving life to the proposition that all U. S. industries should aim at minimizing and eventually getting out of any dependency on their government.

This new policy element of the current administration is one that the new STR would probably find necessary to defend, even in relation to a fair commercial export program for U. S. dairy products. To repeat: Fair competitive pricing, non-predatory selling, willingness to consult when linked to the administration policy to minimize the dependence on the government should, it would seem, be a sound position for STR to defend, as well as to negotiate from.

EXPORT SUBSIDIES

The EC claims it does not "subsidize". It names the same

thing "restitutions". Others take the view there is no "subsidy" under GATT principles so long as the export selling price is competitive and does not result in dumping. Another euphemism is "export price assistance". There are others. These terms all mean the same thing. They mean "export subsidy". There is no question, however, that U. S. policy has recognized and accepted that the use of export subsidies in ~~international~~ trade of agricultural commodities is proper. We have accepted the EC's Common Agricultural Policy, a clear element of which is the use of export subsidies with flagrant abandon, and which they hold to be a bona fide element of the CAP. The U. S., as referred to earlier, negotiated and approved access to the U. S. market for subsized imports of foreign cheeses. The CCC Charter proves full authority for the Secretary of Agriculture to make commodities competitive in foreign markets, and at one time this was regular procedure. The point to be made here is to emphasize:

> The Secretary of Agriculture has now both the authority, and the financial resources at his disposal to put this show on the road. He should and could use the export subsidy as a tool to enable the U. S. trade to begin moving U. S. dairy products commercially into world markets with the objective of seeing the U. S. dairy industry eventually become a commercial operation surviving on its own.

No subsidy would be needed as long as all exports were made directly from CCC stocks. Such sales would entail a loss compared to the acquisition price since the world market is traditionally below the U. S. support level. But there would be no subsidy. The CCC inventory has already been paid for and its market value is only that at which it can be sold on ~~any given day.~~ Just like the farmer who harvests a field of corn, puts it in the bin - its value to the farmer may be the cost of production, but the corn's value for sale would be the market of the day it is sold. Whether a loss or a gain is involved, the question of a subsidy does not enter. Likewise for CCC inventory. If a direct commercial export sale by a private exporter of CCC inventory is made there would not necessarily be any need for a "subsidized" transaction.

A payment in kind program may have application if this program is adopted. The procedure for such a program exists in U.S.D.A. files since it was used extensively at one time. Under this program a dairy exporter could export, say, dry whole milk, and on presentation of appropriate documents he would receive payment in the form of one of the CCC inventory items, either nonfat dry milk, butter, and/or cheese. The PIK program was constructive to dairy exports since it had the effect of relating the commercial disposition of the CCC inventory to kinds of dairy products in addition to those in CCC stock. Whether a CCC product is used for compensating an exporter for the

difference between the domestic and the world market would constitute a subsidy or not is a technical question, probably agreeable either way.

If this program is accepted and implemented the CCC inventory would sooner or later be reduced and then eventually depleted. Then the question of "subsidy" (or whatever term is used) would need to be faced. A subsidy should be provided. The cost element will be discussed later, and it suggests that by far, from a financial point of view, an expanding foreign commercial market, even if subsidized, is the best method to recoup maximum financial returns against the substantial inventory loss.

Beyond the pure economics, dairying in the U. S. is a great industry. It is efficient. It is either the second or third source of farm income, depending on the year looked at. The U. S. dairy industry should produce for the world. World demand for dairy products is growing. As some dairy exporting countries cannot cover their traditional business, there is some basis for agreeing that an investment in commercial dairy exports by the U. S. now, and for the next five to ten years (hopefully less), is sound not only financially, but also toward fulfilling an obligation of American Agriculture to help feed a needy world. This objective - it should be emphasized - has its commercial aspects as well as its concessional and donation aspects.

In brief: The U. S. should develop and expand a commercial market for U. S. dairy products whether a subsidy is needed or not. The objective is eventually, and at all events as soon as feasible, to free the U. S. dairy industry from its dependence on the government.

DAIRY MULTI-NATIONALS

There may be some opposition to U. S. commercial dairy exports from certain of the large U. S. commercial firms with substantial overseas investments in foreign dairy business. However, it can be expected on balance, such firms will be friendly to the idea and in the end will be very active participants in the program purchasing their needs in the U. S. rather than elsewhere, as competition now forces them to do.

The large firms are a marketing asset for dairy farmers, but they, like the dairy farmers, have been virtually isolated from markets outside of the U. S. because there is no way they could compete with the U. S. government dairy support program and export American made dairy products commercially. This program if implemented will change that picture. Most of the larger U. S. firms would gladly export U. S. dairy products if they were within price reach, and would remain so. Their

complaints will not be serious, provided the sale policies set forth herein are adhered to. Where competition is fair, no matter how difficult, most U. S. commercial companies of merit do not complain. They hunt solutions in the market place.

DAIRY PRODUCER ORGANIZATIONS

Dairy producer organizations will generally support a commercial export program such as is recommended by this report. In the past, however, there has been little incentive for the producers to do so.

With domestic prices well over the world market, and the income of dairy farmers importantly tied to the government support program, dairy farmers' principal preoccupation has been government relations. It should be made clear, there has not been opposition to exports from producers. Rather, the incentive to give commercial exports high priority has simply not been there. Now with many factors somewhat different, producers may be expected to be strong supporters of this program.

COST

At the outset the cost of the program should be substantial. The eventual aim would be not only to eliminate all cost to the government, but to see the U. S. dairy industry as a major foreign exchange earner for the U. S. Meanwhile, however, it will cost a great deal to begin with, but gradually less and less. Gradually there would be no financial burden. The world market will take all and be glad to have it. Even if the cost of the program will be high, nonetheless, the highest return against the loss in the CCC inventory would be from the sales under this program. Here is the rationale for that conclusion:

Approximate Value of Surplus (uncommitted)
CCC Inventory (April 1981)

Butter	$ 603 million
Cheese	428 million
Nonfat Dry Milk	585 million
	$1,616 billion

Prices used in the above: $1.50 per pound for butter; $0.94 per pound for nonfat; and $1.37 per pound for cheese.

On the basis of the current market it is estimated commercial export sales could be made in the neighborhood of $2000 per m.t. for butter; and $1000 per m.t. for nonfat. The cheese market is difficult to estimate. There is, however, the practical possibility that through commercial channels up to 40 to 50% (more for butter) of the $1,616 million could have been returned to the government had this program been operative over past years.

It is believed there is no alternative with respect to the CCC inventory which would equal the returns from commercial sales. But, think of what might have been today, if ten years ago we had started to develop a commercial export market for U. S. dairy products as herein recommended. Almost certainly the world would be better fed than it has been and government dairy support bill would be much lower, possibly zero. We need to start NOW!

PRICING PROCEDURE AND POLICY

The objectives of the pricing procedure would be that of assuring, at all times, that the U. S. price for the various dairy products offered for export could be justified as fair and in line with changes in world supply and demand; that such changes and the reasons therefore could be documented and related to commercial facts; that clear reasons for price changes could be provided all U. S. departments and agencies that need the information for defending U. S. program positions.

The most satisfactory way to arrive at such a price would be to establish it, using the collective judgement of a small group of experts who would consider the very widest available information on supply and demand on a regular, continuing basis. To operate the program on the baiss of bids would be to transfer the policy control out of the government. And policy control is absolutely an essential if the U.S. government is to defend its price actions which will impinge on the markets of others. For example, if the U. S. domestic price should get out of line on the low side, then the screams from our competitors would be loud and vociferous. Were the program on a bid basis the defense would depend on commercial domestic ideas as to said prices. In the end we would have difficulty defending bid prices where the problem was one of international relations; for example proprietary interests in the business and if the prices were high, then the program would be out of business. Established prices as compared to receiving bids would be indeed be difficult, but this is definitely the way to go so that the competitive level can be defined and defended and the reasons, therefore, given. What is needed is a world price. Not a domestic U. S. price.

There is no broad trading in dairy products on a listed board, such as there is for grains, soybeans and many other commodities. Hence, in dairy products, there needs to be another method of determining the world price. Here are some specifics of the way this problem could be handled:

First: There would need to be a group of dairy price specialists who meet regularly and consider a very broad spectrum of world dairy supply and demand information. Membership in this group could consist of:

FAS - probably the Director of the Dairy Livestock, and Poultry Division should be chairman. Representatives from Trade Policy and from Agricultural Counselors and Attaches should also participate.

From AMS: The Director of the Dairy Market News Service and/or the most knowledgeable dairy reporter who would bring a U. S. national view to the meetings.

ASCS: The Director of the Dairy Divison who would know the national market from the point of view of the support program and in other ways.

SALES MANAGER: The specialist who knows most about the commercial dairy business as well as PL 480 and concessional export programs.

OTHERS: Any others the group feels could be helpful and make constructive suggestions.

The group (it should be given a name) should meet regularly, at least once a week and oftener if need be. Each member should be prepared to report on his area of the dairy market. Week in and week out, month in and month out, year in and year out the group would meet and consider all the supply and demand information it could get its hands on. It wouldn't take long; the group would soon know more about world supply and demand than any other source in the world. On the basis of this knowledge, continuing and changing knowledge, the chairman, taking into account group participation would at least weekly establish prices against which USDA would make dairy exports available in world markets.

The information the group would consider would include at least the following:

Dairy market news - domestic U. S. supply and demand for all major products in all sections of the country.

Agricultural Counselors and Attaches - those located in all major dairy exporting and importing countries would be required to file weekly cables with the full range of supply and demand information for the week involved elaborating as indicated on reason for the change. Those located where dairy boards exist (New Zealand, Australia, England, Ireland, EEC Dairy Commission and others) would in particular provide information on the sales activities and prices of these Boards. These reports from overseas would be a most important part of the information considered by the price group.

The foregoing is in no way definitive or complete in its

description. It is representative in nature. There are many other sources - foreign and domestic dairy publications, for example. However, USDA has available to it the very widest and varied sources of market information of any organization in the world. Such a pricing group as is described herein in a very short time, would become the top world authority on world demand for dairy products and really, then, no one would gainsays the judgement it used in establishg competitive prices against which U. S. commercial exports would be made.

To recapitulate: It would be the expertise and ongoing professionalism that this group would express and which would...

... provide the basis for defending the objectives of fairness and correctness, referred to earlier.

... arm all other agencies of government, as needed, with documented rationale for defending the U. S. dairy export program.

Respectfully yours,

M. E. FRANKS, INC.

M. E. Franks
Chairman & CEO

MEF/sr
Enclosures